

31 July 2019

## **DRAGONTAIL SYSTEMS – Q2 FY19 QUARTERLY UPDATE**

### **RECORD INCREASE IN INSTALLATIONS**

**Dragontail Systems Limited** (ASX: DTS) (**Dragontail** or the **Company**) is pleased to announce its quarterly performance for the period ended 30 June 2019 (Q2 FY19).

#### **Q2 HIGHLIGHTS**

- **Record increase in installed base to over 1,600 locations, which is a 5-fold increase since the beginning of the year.**
- **Nationwide rollout of the QT Camera completed in more than 800 Domino's Pizza stores across Australia and New Zealand, with very positive initial results.**
- **Cash receipts for Q2 of A\$390k, up 144% on the June 2018 quarter. Total receipts for H1 2019 were over A\$1m, a record level and up 156% on H1 2018.**
- **Q2 total expenses were 8% below budget at A\$2.4m, which demonstrates the company's ability to rapidly scale the installed base while controlling operating costs.**
- **Strategic Alliances formed with two of the world's leading food-delivery aggregators, DoorDash (North America) and Kin Shun (Asia-Pacific), vastly increasing the Company's Total Addressable Market (TAM).**
- **Strong installation momentum has continued into H2, with the company targeting an installed base of 2,800 stores by year-end, underpinned by existing contracts.**
- **A\$4.3m debt facility secured from the Company's largest Australian-based shareholder, Alceon Liquid Strategies Pty Ltd.**

Commenting on the Company's quarterly results, Managing Director, **Ido Levanon** said:

"It is exciting to see Dragontail establishing itself as the technology provider of choice for large, global quick service restaurant (QSR) chains seeking to optimise their kitchen workflow, delivery and product quality performance. It is becoming evident that once installed, Dragontail's products are integral to the operations of its customers and it is pleasing to see them delivering strong and immediate results.

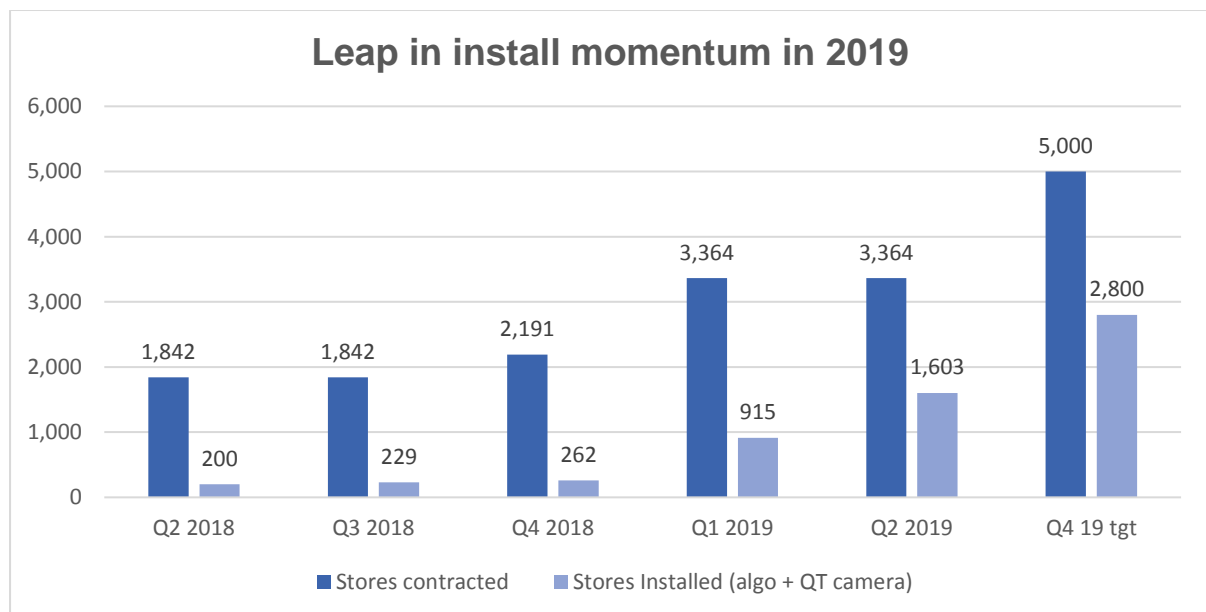
This quarter we have demonstrated an ability to install at scale, and are setting the foundation for strong growth in the installed base and recurring revenue over the years ahead. The significant growth we have achieved so far this year is a testament to the effort and dedication of the Dragontail team, who have worked with extraordinary determination.

As a young company, we are proud of the strong relationships already developed with our major customers and look forward to deepening them over time as well as broadening our customer base as we execute on our pipeline. We truly believe that Dragontail's technology can fundamentally improve the profitability of QSR's by improving product quality, increasing customer satisfaction and reducing waste, which reinforces our expectations for widespread adoption in the years ahead."

## KEY OPERATIONAL METRICS

	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q4 2019 target
<b>Stores contracted</b>	1,842	1,842	2,191	3,364	3,364	5,000
<b>Stores installed (Algo + QT camera)</b>	200	229	262	915	1,603	2,800
<b>Customer receipts (A\$k)</b>	150	500	226	632	390	
<b>QoQ growth in receipts</b>	-34%	233%	-54%	179%	-38%	

Dragontail delivered record growth in the number of installed stores this quarter, with an increase of 688 to 1,603 stores. The installed base is comprised of the Company's two flagship products, the Algo Platform (integrated kitchen workflow and delivery software) and the QT Camera (AI-driven quality control system). This strong growth demonstrates the Company's deep relationships with its Tier 1 global QSR customers and provides further validation of its technology.



Contracted stores remained at 3,364 over the quarter. As previously outlined, the Company's sales efforts are currently focused on our strong pipeline of large, global QSR chains, execution on which will deliver step-change growth in contracted and installed stores. Inevitably, the sales cycle for these large customers is longer than smaller groups, who will equally benefit from the Company's products but are not currently being actively marketed to.

## Q2 FY19 CASH FLOWS

The Appendix 4C quarterly report for the three months ended 30 June 2019 is attached.

Cash receipts from customers totaled A\$390k, up 144% on the Q2 FY18 quarter. It is important to note that cash receipts are comprised of upfront installation revenue on newly installed systems, as well as monthly license revenue on the entire installed base. The company's objective is to grow this license revenue, which represents a long-term recurring revenue stream with very high margins post installation.

Total cash receipts were down on Q1 FY19 due to lower installation revenue, which can fluctuate significantly from quarter to quarter based on the installation schedule agreed with customers.

Importantly, the monthly recurring revenue (MRR) from license fees continues to increase, with further strong growth expected in H2 from the roll-out of current and new contracts. The Company also expects average MRR per store to increase over time due to increased numbers of Algo and Total Technology installations.

Total operating cash payments for Q2 were A\$2.4m, which was 8% below forecast and demonstrates the scalability of the Company's SaaS-driven offering, which allows for significant increases in the installed base without a commensurate increase in operating costs. The company continues to invest in R&D to strengthen its existing product suite and to develop new products.

Total cash usage (Net cash used in operating activities) in Q2 of A\$1.9m was lower than management expectations and equal to the Q1 FY19 net outflow.

Closing cash at 30 June 2019 of A\$1.44m was increased by A\$4.3m subsequent to quarter end following the drawdown of the corporate debt facility on 16<sup>th</sup> July.

## CUSTOMER UPDATE

**Dragontail has completed the nationwide rollout of its Artificial Intelligence (AI)-driven quality control system (QT Camera) in more than 800 Domino's Pizza stores across Australia and New Zealand.**

The QT Camera was installed with the aim of significantly improving product quality and consistency throughout all Domino's stores in Australia and New Zealand. The system recognizes, analyses and grades pizzas based on pizza type, topping accuracy and distribution in less than three seconds. By using AI, it compares this data with a large dataset of correctly made pizzas, delivering an instant assessment to the kitchen. Early results indicate significant benefits to quality control and customer satisfaction.

The QT Camera is a patented product in the US (and selected other countries), having its unique technology and work method broadly protected. Dragontail believes this proprietary technology can be configured for other fast-food types globally, with select testing underway.

**Strategic Alliances formed with two of the world's leading food-delivery aggregators – DoorDash, Inc (North America) and Kin Shun (Asia-Pacific).** Systems integration is already taking place with expected completion in Q3/Q4 this year.

These Strategic Alliances arose due to Dragontail's unique ability to offer its Algo Platform customers the flexibility to fulfill deliveries using their own employed drivers alongside the delivery offerings of aggregator platforms such as DoorDash. These Strategic Alliances mark the Company's entry into the fast-growing food aggregator/delivery app channel, which vastly increases the Company's TAM.

Dragontail believes its products can provide the operating flexibility sought by many QSR's in relation to aggregator platforms and mode of delivery. The potential benefits will be in the form of reduced labor costs, enhanced coordination between the food preparation and dispatching process, improved delivery times and consequent improvements to customer satisfaction levels.

**The roll out of Dragontail's Algo platform across all Pizza Hut stores in Australia is gaining momentum after a successful roll out in company-owned stores.** After experiencing positive results from these stores, the Company is accelerating installations in franchisee stores. More than 280 stores are scheduled to be installed during 2019.

**Data from Dragontail's SaaS platform, as well as direct feedback from QSR customers, indicates that the Company's products are contributing to a significant improvement in the operation of their stores.** Based on actual performance reported by Dragontail's key customers, a major improvement was achieved in customer satisfaction, especially in speed of service and taste of food. In addition, complaints by consumers were reduced by as much as 50%.

## **FUNDING**

Subsequent to quarter-end, Dragontail secured debt funding from the Company's largest Australian-based shareholder, Alceon Liquid Strategies Pty Ltd, a member of the Alceon Group and manager of the Alceon High Conviction Absolute Return Fund (refer ASX announcement 16 July 2016). The facility is a two-year senior, unsecured corporate loan for the amount of A\$4.3m.

The loan was drawn down on July 16th and provides the Company with the working capital it needs to continue the aggressive roll-out of its products among its global customer base, as well as to pursue significant new opportunities. The Board believes that modest debt funding balances the Company's need for capital to deliver on its near-term growth plans, without significantly diluting existing shareholders by raising equity at prices that, in the Board's view, do not reflect the underlying value of the Company.

## **OUTLOOK**

The Company has just delivered a record quarter for installations and expects strong growth to continue over the remainder of the year. The year-end target of 2,800 installed stores is underpinned by existing customer contracts. The contract pipeline is robust, with several significant opportunities in various stages of discussion, while the Company's immediate capital needs have been satisfied by the two-year debt facility.

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### **For further information please contact:**

#### **Corporate:**

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### **About Dragontail Systems**

Dragontail is revolutionising the Quick Service Restaurant (QSR) and foodservice industry with its Algo Platform and computer-vision QT quality system that uses artificial intelligence (AI) machine learning.

The Algo Platform uses a sophisticated patented algorithm to optimise and manage the entire food preparation process from order to delivery. It is the first system in the world to fully automate and streamline the kitchen flow to deliver an immediate and significant return on investment to fast food and quick service restaurants.

The QT system's sensor and camera automatically monitor the preparation and cooking process in the kitchen to improve the quality and consistency of meals. Using proprietary patented advanced AI machine-learning technology, the system keeps improving its diagnostics, becoming even more efficient.

For more information, visit [www.dragontailsystems.com](http://www.dragontailsystems.com).

## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

Dragontail Systems Limited

**ABN**

614 800 136

**Quarter ended ("current quarter")**

30 June 2019

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$USD'000</b>	<b>Year to date (6 months) \$USD'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	273	722
1.2 Payments for		
(a) research and development	(544)	(1,378)
(b) product manufacturing and operating costs	(589)	(976)
(c) advertising and marketing	(53)	(122)
(d) leased assets	-	-
(e) staff costs	(220)	(445)
(f) administration and corporate costs	(201)	(462)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	3
1.5 Interest and other costs of finance paid	(3)	(6)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,337)</b>	<b>(2,664)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(11)	(46)
(b) businesses (see item 10)	-	-

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$USD'000</b>	<b>Year to date (6 months) \$USD'000</b>
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other – cash acquired upon acquisition of subsidiaries.	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(11)</b>	<b>(46)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Loan refund from a service provider	4	7
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>4</b>	<b>7</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	2,437	3,730
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,337)	(2,664)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(11)	(46)

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$USD'000</b>	<b>Year to date (6 months) \$USD'000</b>
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4	7
4.5	Effect of movement in exchange rates on cash held	(85)	(19)
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>1,008</b>	<b>1,008</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$'000</b>	<b>Previous quarter \$'000</b>
5.1	Bank balances	933	2,338
5.2	Call deposits	75	99
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,008</b>	<b>2,437</b>

**6. Payments to directors of the entity and their associates**

	<b>Current quarter \$USD'000</b>
6.1	60
6.2	-
6.3	

- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2
- |   |
|---|
| <ol style="list-style-type: none"> <li>1. Corporate advisory fees;</li> <li>2. Office services;</li> <li>3. Legal fees;</li> <li>4. Director's fees; and</li> <li>5. Reimbursements.</li> </ol> |
|---|

<b>7. Payments to related entities of the entity and their associates</b>	<b>Current quarter \$'000</b>
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

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<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$'000</b>	<b>Amount drawn at quarter end \$'000</b>
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

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<b>9. Estimated cash outflows for next quarter</b>	<b>\$'000</b>
9.1 Research and development	622
9.2 Product manufacturing and operating costs	550
9.3 Advertising and marketing	106
9.4 Leased assets	-
9.5 Staff costs	218
9.6 Administration and corporate costs	388
9.7 Other (provide details if material)	-
<b>9.8 Total estimated cash outflows</b>	<b>1,884</b>



10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

### Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here: \_\_\_\_\_  
(Director)

Date: 31 July 2019

Print name: Ido Levanon

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.